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C O N F I D E N T I A L USNATO 6188

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SUBJECT: INFRASTRUCTURE COMMITTEE ACTION ON NICS PRODUCTION SHARING

REFS: A. USNATO 5920

B. STATE 239415

SUMMARY. ON 5 NOVEMBER INFRASTRUCTURE COMMITTEE DISCUSSED DRAFT REPORT TO DPC CONCERNING NICS PRODUCTION SHARING. DISCUSSION TURNED INTO NEGOTIATING SESSION AND AS RESULT, RANGE OF POSITIONS HAS NARROWED TO 25-30 PCT. COMMITTEE HAS COME TO NO CONCLUSION IF COMPROMISE PERCENTAGE SHOULD APPLY TO ONLY TARE OR TO IVSN AND SGT AS WELL. END SUMMARY.

1. AT INFRASTRUCTURE COMMITTEE MEETING ON 5 NOVEMBER, INTERNATIONAL STAFF INTRODUCED DRAFT REPORT TO THE DPC CONCERNING THE NICS PRODUCTION SHARING ISSUE. INTERNATIONAL STAFF PROPOSED SUBMITTING REPORT TO PERM REPS FOR DECISION OR FORWARDING TO MINISTERS IN DECEMBER AS APPROPRIATE.

2. REPORT CONTAINED FACTUAL STATEMENT OF BACKGROUND OF PROBLEM, SUMMARY OF NATIONAL POSITIONS, IMPLICATIONS OF FURTHER DELAY, AND RECOMMENDATIONS THAT THE DPC AGREE UPON A PRODUCTION CONFIDENTIAL

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SHARING FIGURE FOR APPLICATION AT LEAST IN THE CASE OF THE TARE PROCURMENT. SINCE ALLIES COULD NOT AGREE TO A SINGLE FIGURE, INTERNATIONAL STAFF PROPOSED TO LET THE DPC PERMREPS SPECIFY THE PERCENTAGE.

3. IN CONSONANCE WITH REF B, MISSION HAD ARRANGED WITH INTERNATIONAL STAFF TO SUPPORT COMPROMISE FIGURE OF 25 PCT, AND DIRECTOR GENERAL NICSMA STATED TO COMMITTEE THAT RECENT DEVELOPMENTS AND ADDITIONAL STUDY OF THE TARE AND IVSN CONTRACTS HAD LED HIM TO CONCLUDE THAT IT WOULD BE DANGEROUS TO REQUIRE PRODUCTION SHARING IN EXCESS OF 25 PCT ON THESE FIRST TWO CONTRACTS (I.E., THE LOWER END OF HIS ORIGINAL 25-35 PCT RECOMMENDATION). DIRECTOR GENERAL SAID HE BELIEVED THAT ANY PRODUCTION SHARING REQUIREMENT WHICH CUT INTO THE BASIC ELECTRONIC EQUIPMENT PORTION OF THE CONTRACTS WOULD NOT ONLY RAISE THE PRICE OF THE PRODUCT, BUT WOULD TEND TO DEGRADE THE PRODUCT AS WELL.

4. US REP (CAMBELL) STATED THAT IF ALL MEMBERS OF THE COMMITTEE COULD ACCEPT A PRODUCTION SHARE OF 25 PER CENT FOR THE TARE PRODUCT, HE WOULD RECOMMEND ACCEPTANCE BY WASHINGTON. CANADIAN REP (DUNSEATH) INSISTED THAT CANADA HAD ALREADY COMPROMISED ITS POSITION FROM THE ORIGINAL 35 PCT OF THE ELECTRONICS PORTION TO ITS CURRENT POSITION OF 35 PCT OF THE CONTRACT VALUE. HE BELIEVED THAT CANADA SHOULD NOT MAKE A FURTHER MOVE UNTIL THE US MADE A NEW OFFER.

5. US REP, DRAWING ON REF B, SUGGESTED THAT CANADIAN POSITION MIGHT HAVE CHANGED IN VIEW OF RICHARDSON QUOTE CONTAINED IN REF B. CANADIAN REP COUNTERED THAT THAT QUOTE WAS TAKEN OUT OF CONTEXT, AND SHOULD READ, QUOTE A COMPROMISE OF 35 PCT FOR BOTH TARE AND IVSN WHICH IN TERMS OF ACTUAL PRODUCTION REPRESENTS AN EFFECTIVE 25 PCT OF CONTRACT VALUE SINCE 10 PCT IS NORMALLY ALLOCATED FOR TESTING AND INSTALLATION COSTS UNQUOTE. CANADIAN REP STATED THAT RICHARDSON POSITION STILL STOOD AND CANADA DID REQUIRE A 35 PCT PRODUCTION SHARE OF THE TOTAL CONTRACT VALUE.

6. INTERNATIONAL STAFF REP (CONTROTTI) INTRODUCED NEW BREAKDOWN OF THE COST OF CONTRACT ELEMENTS AS FOLLOWS: (IN MILLIONS OF IAU)

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SATCOM
III
GROUND
PROGRAM
IVSN (12 NEW SGTS PLUS
ACCESS MODIFICATION OF
TARE SWITCHES SATCOM II)
(19) (25)

ELECTRONIC
EQUIPMENT 10.6 5.7 15.05

OTHER

EQUIPMENT 3.0 1.2 9.06

INSTALLATION

AND TESTING 1.4 1.5 4.5

TOTAL CONTRACT

VALUE 15 8.4 28.61

CIVIL WORKS 3.2 INSIGNIFICANT 4.7

TOTAL

PROJECT COST 18.2 8.4 33.31

IS REP NOTED THAT THE NEW FIGURES PUT A DIFFERENT ASPECT ON THE PERCENTAGES THE VARIOUS ALLIES REQUIRED. FOR INSTANCE, THE CANADIAN POSITION OF 35 PCT OF THE CONTRACT VALUE IN THE CASE OF TARE AMOUNTED TO ALMOST 50 PCT OF THE TOTAL PROJECT COST WITHOUT ACTUALLY REQUIRING ANY SHARING OF THE ELECTRONIC EQUIPMENT PORTION. NICSMA REP (LE HARDY) POINTED OUT THAT THIS WAS NOT QUITE TRUE IN THAT SOME ELECTRONIC EQUIPMENT SUCH AS SPARE PARTS AND TEST EQUIPMENT WAS INCLUDED IN THE IAU 3 MILLION OF QUOTE OTHER EQUIPMENT UNQUOTE. AFTER MUCH DISCUSSION BETWEEN US AND CANADIAN REPS CONCERNING RELATIVE AMOUNTS OF FLEXIBILITY WHICH US AND CANADA HAD ALREADY SHOWN IN NEGOTIATIONS, NORWEGIAN REP (KLEIVANE) SUGGESTED THAT ALL COMMITTEE MEMBERS ADOPT COMPROMISE OF 30 PCT. NICSMA REP SPECIFIED THAT DG NICSMA CONSIDERED THAT ANYTHING OVER 30 PCT WOULD SURELY HARM THE NICS, BUT THAT
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AREA BETWEEN 25 AND 30 PCT WAS ONLY QUOTE POTENTIAL HARMFUL UNQUOTE. ALL NATIONS EXCEPT CANADA, BELGIUM, GERMANY AND US COULD ACCEPT 30 PCT AS A COMPROMISE FIGURE. GERMAN AND BELGIAN REPS (SCHATTENBERG AND DU COFFRE RESPECTIVELY) COULD ACCEPT IT AD REFERENDUM AS COULD CANADA ONLY AFTER THE US AGREED TO IT. US REP SAID IT WAS HIS IMPRESSION THAT 30 PCT WAS OUT OF THE QUESTION FROM A US POINT OF VIEW, AND ITERATED HIS AGREEMENT TO RECOMMEND 25 PCT IF ALL OTHERS COULD ACCEPT IT.

7. CHAIRMAN (SMITH) SUGGESTED THAT, SINCE FULL AGREEMENT TO ANY FIGURE APPEARED TO BE IMPOSSIBLE AT INFRASTRUCTURE COMMITTEE LEVEL, REPORT TO DPC SHOULD INDICATE CURRENT SPREAD OF POSITIONS BETWEEN US 20 PCT AND CANADIAN 35 PCT AND SHOULD REFER TO DIRECTOR GENERAL NICSMA RECOMMENDATION FAVORING 25 PCT, BUT FLEXIBLE TO AS HIGH AS 30 PCT. COMMITTEE WOULD THEREFORE REQUEST DPC PERM REPS TO DECIDE WITHIN THAT RANGE. IN ADDITION, SINCE SOME ALLIED GOVERNMENTS COULD AGREE ON COMPROMISE FOR THE TARE PROJECT ONLY, WHILE OTHERS COULD AGREE ONLY AND IF IT APPLIED BOTH TO TARES AND IVSN, DPC PERM REPS SHOULD DECIDE HOW TO APPLY WHATEVER COMPROMISE FIGURE EVENTUALLY EMERGED. COMMITTEE

AGREED TO SMITH'S PROPOSALS, AND INTERNATIONAL STAFF
WILL SHORTLY PUBLISH NEW DRAFT REPORT WHICH DELEGATIONS WILL
FORWARD TO CAPITALS.
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